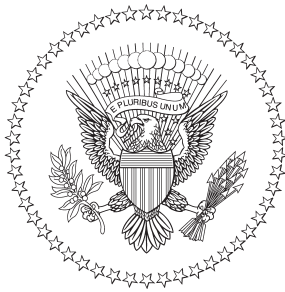


ECONOMIC REPORT OF THE PRESIDENT



TRANSMITTED TO THE CONGRESS
FEBRUARY 2012

TOGETHER WITH
THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

UNITED STATES GOVERNMENT PRINTING OFFICE
WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001
ISBN 978-0-16-090181-2



C O N T E N T S

Page

ECONOMIC REPORT OF THE PRESIDENT	1
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS*	7
CHAPTER 1. TO RECOVER, REBALANCE, AND REBUILD	21
CHAPTER 2. THE YEAR IN REVIEW AND THE YEARS AHEAD	37
CHAPTER 3. RESTORING FISCAL RESPONSIBILITY	81
CHAPTER 4. STABILIZING AND HEALING THE HOUSING MARKET	99
CHAPTER 5. INTERNATIONAL TRADE AND FINANCE	129
CHAPTER 6. JOBS AND INCOME: TODAY AND TOMORROW	163
CHAPTER 7. PRESERVING AND MODERNIZING THE SAFETY NET	197
CHAPTER 8. IMPROVING THE QUALITY OF LIFE THROUGH SMART REGULATION, INNOVATION, CLEAN ENERGY, AND PUBLIC INVESTMENT	231
REFERENCES	267
APPENDIX A. REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE COUNCIL OF ECONOMIC ADVISERS DURING 2011	293
APPENDIX B. STATISTICAL TABLES RELATING TO INCOME, EMPLOYMENT, AND PRODUCTION	307

*For a detailed table of contents of the Council's Report, see page 11.

ECONOMIC REPORT
OF THE
PRESIDENT

ECONOMIC REPORT OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

One of the fundamental tenets of the American economy has been that if you work hard, you can do well enough to raise a family, own a home, send your kids to college, and put a little money away for retirement. That's the promise of America.

The defining issue of our time is how to keep that promise alive. We can either settle for a country where a shrinking number of people do very well while a growing number of Americans barely get by, or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules.

Long before the recession that began in December 2007, job growth was insufficient for our growing population. Manufacturing jobs were leaving our shores. Technology made businesses more efficient, but also made some jobs obsolete. The few at the top saw their incomes rise like never before, but most hardworking Americans struggled with costs that were growing, paychecks that were not, and personal debt that kept piling up.

In 2008, the house of cards collapsed. We learned that mortgages had been sold to people who could not afford them or did not understand them. Banks had made huge bets and doled out big bonuses with other people's money. Regulators had looked the other way, or did not have the authority to stop the bad behavior. It was wrong. It was irresponsible. And it plunged our economy into a crisis that put millions out of work, saddled us with more debt, and left innocent, hardworking Americans holding the bag.

In the year before I took office, we lost nearly 5 million private sector jobs. And we lost almost another 4 million before our policies were in full effect.

Those are the facts. But so are these: In the last 23 months, businesses have created 3.7 million jobs. Last year, they created the most jobs since 2005. American manufacturers are hiring again, creating jobs for the

first time since the late 1990s. And we have put in place new rules to hold Wall Street accountable, so a crisis like this never happens again.

Some, however, still advocate going back to the same economic policies that stacked the deck against middle-class Americans for way too many years. And their philosophy is simple: We are better off when everybody is left to fend for themselves and play by their own rules.

That philosophy is wrong. The more Americans who succeed, the more America succeeds. These are not Democratic values or Republican values. They are American values. And we have to reclaim them.

This is a make-or-break moment for the middle class, and for all those who are working to get into the middle class. It is a moment when we can go back to the ways of the past—to growing deficits, stagnant incomes and job growth, declining opportunity, and rising inequality—or we can make a break from the past. We can build an economy by restoring our greatest strengths: American manufacturing, American energy, skills for American workers, and a renewal of American values—an economy built to last.

When it comes to the deficit, we have already agreed to more than \$2 trillion in cuts and savings. But we need to do more, and that means making choices. Right now, we are poised to spend nearly \$1 trillion more on what was supposed to be a temporary tax break for the wealthiest 2 percent of Americans. Right now, because of loopholes and shelters in the tax code, a quarter of all millionaires pay lower tax rates than millions of middle-class households. I believe that tax reform should follow the Buffett Rule. If you make more than \$1 million a year, you should not pay less than 30 percent in taxes. In fact, if you are earning a million dollars a year, you should not get special tax subsidies or deductions. On the other hand, if you make under \$250,000 a year, like 98 percent of American families do, your taxes should not go up.

Americans know that this generation's success is only possible because past generations felt a responsibility to each other, and to the future of their country. Now it is our turn. Now it falls to us to live up to that same sense of shared responsibility.

This year's *Economic Report of the President*, prepared by the Council of Economic Advisers, describes the emergency rescue measures taken to end the recession and support the ongoing recovery, and lays out a blueprint for an economy built to last. It explains how we are restoring our strengths as a Nation—our innovative economy, our strong manufacturing base, and our workers—by investing in the technologies of the future, in companies that create jobs here in America, and in education

and training programs that will prepare our workers for the jobs of tomorrow. We must ensure that these investments benefit everyone and increase opportunity for all Americans or we risk threatening one of the features that defines us as a Nation—that America is a country in which anyone can do well, regardless of how they start out.

No one built this country on their own. This Nation is great because we built it together. If we remember that truth today, join together in common purpose, and maintain our common resolve, then I am as confident as ever that our economic future is hopeful and strong.

A handwritten signature in black ink, appearing to be "Barack Obama", with a stylized, flowing script.

THE WHITE HOUSE
FEBRUARY 2012



THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS
Washington, D.C., February 17, 2012

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2012 Annual Report in accordance of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

Sincerely,


Alan B. Krueger
Chairman


Katharine G. Abraham
Member


Carl Shapiro
Member